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## Bulgaria

### Market Development Reports

### Supermarket's Development Trends

## 2007

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**Report Highlights:**

The Bulgarian retail sector has benefited from the country's recent EU membership. Sector development will continue to be driven by rising consumer confidence and purchasing power, as well as the overall growth of Bulgarian economy. The heightened level of competition in the retail food sector is pushing companies to develop new strategies, promotional activities and discount policies in order to attract new customers. The interest of foreign investors and international chains in entering the Bulgarian market is steadily increasing.

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## Market Overview

Bulgaria's EU membership on January 1st, 2007 has increased foreign investors' interest in well-established big local supermarket chains. The supermarket sector is expected to continue to grow strongly to meet increased purchasing power and changing consumption habits and patterns. Rising living standards of households is translating into demand for higher quality, and greater diversity and year-round product availability and variety.

Compliance with EU requirements for food safety is motivating for further market developments. Prices are negotiated directly between manufacturers and distributors, which makes competition intense. Harmonization of Bulgarian legislation with that of the EU in areas such as personnel training, food safety, value added tax, and consumer protection are expected to support positive development of the retailing sector.

Supermarket and hypermarket sector development is characterized by the following trends:

- New strategic market development efforts and new promotional activities;
- Increased share of ready-to-eat foods and easy-to-cook products and gourmet foods;
- Price competition;
- Private label penetration;
- Management focus on competitiveness of products offered;
- Growing market for organic products;
- Extensive growth in packaged foods.

Supermarket and hypermarket chains are trying to differentiate themselves by offering additional non-grocery services and products to match consumers' expectations and to provide one-stop shopping solutions. These services include photo printing, café, pharmacies, banking, photocopying, cultural events box office, all of which contribute to better consumer satisfaction. More and more supermarkets will be converted into hypermarkets as economic growth continues.

Discount strategies are playing significant role in the competition between stores and companies. Supermarket and hypermarket chains remain popular among consumers as they usually offer an extensive range of products at competitive prices. The share of imported products has gone up by 20 percent compared to 2006. Consumers tend to make only one or two shopping trips per week. The fast development of supermarket chains has clearly been to the detriment of smaller traditional grocery outlets, which continue to register declines.

## Entry of New Players

**German retailer Tengelmann**, owner discounter Plus, has announced its plans to enter the Bulgarian market. Tengelmann will open several stores in Bulgaria in the first quarter of 2008, totalling an investment of USD 200 million.

**German discounter Plus** will open its first store in Bulgaria in early 2008, according to local press reports. The retailer, which is part of Tengelmann, is to invest USD 300 million to open new stores over the next four years, with further investment plans for a logistics and administration centre in Chepintsi, in south-west Bulgaria.

**German chain Penny Market**, one of the leading discounters in Europe, will invest USD 1.4 million to build hypermarket in the town of Svilengrad, located close to the Turkish

and Greek borders. Penny Market belongs to German REWE group, owner of the Austrian Billa, and is the second biggest hypermarket chain following METRO. The outlet will be opened by the end of 2007.

**Leading Slovenian retailer Mercator** has announced ambitious plans to expand its business into Bulgaria and Macedonia, and to build new shopping centers to increase its market share in Serbia, Croatia and Bosnia.

**The French leader in Europe, Carrefour**, is planning to invest USD 103.3 million over the next three years. To build its first outlet in Bulgaria in 2008, the retailer plans to invest USD 43 million to complete the construction of a hypermarket and a shopping center.

**German's second largest retailer Lidl** is planning to enter new markets at the rate of at least one per year, including Bulgaria in 2008. Its global growth ambition is said to be 6640 outlets in Europe.

### Expansion of Existing Foreign Retailers

Multinational chains operating in Bulgaria benefit from their experience and management practices in other countries. Because of their size and reputation, they exercise considerable bargaining power when dealing with government authorities, suppliers, distributors and competitors. Their large scale ensures easier penetration and establishment in the Bulgarian retail market.

**German Metro** has opened its eighth Bulgarian cash-&-carry outlet in the southwestern town of Blagoevgrad. Total investment was USD 24.8 million. New investment to the amount of USD 25 million is earmarked for a new outlet in Veliko Tarnovo. With the hypermarket in Blagoevgrad, Metro has introduced a revamped design for its Bulgarian stores. After seven years of operations in Bulgaria, METRO has proven to be one of the most successful companies on the market. A solid proof for this is the continuously growing number of loyal customers and partners. One of METRO's strategies is to improve the business environment in which it operates. For more than a year now the chain has successfully marketed its own brand "ARO".

**Austrian Billa owned by German REWE** is operating 19 outlets around the country. By 2010 Billa is planning to invest in 7 additional outlets in towns of more than 40,000 population. Billa announced 18.5 percent market share. Owner of Billa is REWE group.

**Hungarian discount retailer CBA** is aiming for its Bulgarian operations to generate an annual turnover of over USD 43 million in 2007 compared to USD 38 million in 2006. CBA is investing USD 13 million in a commercial center in Veliko Tarnovo, as well as two other logistics facilities in the towns of Gabrovo and Rouse. CBA also plans to invest USD 3 million for a logistics facility in Svishtov, northern Bulgaria. CBA operates 170 supermarkets in 30 towns around the country. The investment is expected to boost annual sales to over USD 72 million by 2009. Also by 2009, the retailer plans to open 230 new stores in Bulgaria, boosting its total operations to 400.

**The Schwarz Group has opened its fourth Kaufland** hypermarket in Bulgaria. The German retailer started its business in Bulgaria in July 2006 with the launch of its first hypermarket in Sofia. The Schwarz Group plans to operate up to 8 stores by the end of 2006. In addition to the capital city, it has targeted the towns of Rouse, Varna, Yambol, Sliven and Vratsa. The Kaufland office in Bulgaria is set to build a second logistics center adjacent to its existing facility in the Rakovski industrial zone. The new facility will cover a total area of 10,000 sq. meters. The new center is expected to be operational in August 2007. Kaufland Bulgaria did not disclose the size of its investment. Currently, the chain operates 10 outlets in Bulgaria with 4 more stores under construction.

### **Local Chains Development**

Domestic chains have a serious challenge in responding to the size and bargaining power of larger discounter chains. While they are still in the process of establishing themselves throughout Bulgaria, they are trying to strengthen their relationship with consumers by improving their loyalty programs, emphasizing the high quality of the products they carry, and by differentiating the range of services they offer. Since domestic chains do not have enough capital and financial resources to match the low discounter prices for long periods of time, some are already looking for investors. Direct import of products is amongst priorities for local chains in an effort to cut prices.

**Piccadilly** is the biggest Bulgarian supermarket chain with over ten years of experience and tradition. They operate 11 stores in four towns of the country - Sofia, Varna, Bourgas and Veliko Turnovo.

In 2008 -2009 Piccadilly will open three new stores - one in Plovdiv, the second largest town in Bulgaria, one in Stara Zagora, and one more in Varna. The company's plans include launching 12 new stores by 2010, reaching a total of 23 stores. Annual sales for 2007 are estimated USD 110 million, up from USD 73 in 2006. Piccadilly is oriented to middle and high-end customers. The advantages of its stores are high quality of services, sophisticated product range at affordable prices, its forward looking efforts to keep up with modern trends and new technologies, a loyal customers' program, and continuous investment in its facilities and product lines.

**Elemag** plans to invest USD 14 million in network expansion by 2009. The chain will start constructing a supermarket, fast food restaurant and an office and residential building in the resort of Slanchev Bryag. The construction will begin in the fall of 2007 and is expected to be completed in 2008. They plan to open 3 more stores in Sofia within the next 2 years, as well as new outlets in the cities of Varna and Burgas. Elemag will finance its investment plans with new debt. Its main customer base is upper-middle-class Bulgarians and foreign customers.

**Familia and Fantastico** both enjoy a good reputation among Bulgarian consumers thanks to good service, a wide variety of products at low prices, and convenient locations in urban areas. Because of their medium size, the outlets can be built in or close to city centers or alternatively take over existing outlets that have gone out of business. Both chains were initially concentrated in Sofia, but are now beginning to expand into the rest of the country. Fantastico opened a new store in the town of Kiustendil in southern Bulgaria, running total 27 stores and is planning to continue its expansion. Familia is planning to open new outlets outside of Sofia at a rate of five to six stores per year. A foreign investment fund from Iceland invested in the chain in March of 2007. Familia is currently planning to start direct imports.

## Opportunities for U.S. Exporters

In March 2007 FAS/Sofia sponsored American Foods Week promotion at Piccadilly supermarket stores across Bulgaria. Increases in sales of U.S. products have been following the promotion. Consumer interest in U.S. products is strong, and Post thinks there are good opportunities for U.S. wines, snack foods, nuts, fish and seafood in Bulgarian retail outlets.

Piccadilly is now interested in direct imports of U.S. snack foods, ready-made meals, noodles, and breakfast cereals. Piccadilly will continue to do in-store promotions in 2008 with special displays of U.S. products, and invitations will be extended to interested U.S. importers to participate with their products.

If you would like to participate in a 2008 promotion, or you would like more information, please contact at Piccadilly address below or contact [Julia.Vulkova@usda.gov](mailto:Julia.Vulkova@usda.gov).

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